

# Freelancer: One year on

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Alan Kohler interviews Matt Barrie

## Transcript

AK: Well, Matt, thanks for joining us on *Eureka Report*. It's great to see you.

MB: Thanks for having me here.

AK: Now, a good result and the whole tone of the presentations this week, your annual report and so on, was very upbeat, how good things are going, but the thing is that the share price since you floated, over past year has gone from \$1.60 to 60 cents, so that's a shocking performance, isn't it?

MB: Well, in actual fact, the share price went from 50 cents to today about 68 cents, so...

AK: Well, that's on the way....

MB: On the first day the share price went up 520 per cent, so I think, you know, we had to deal obviously with the froth from... coming up from that opening.

AK: I guess... But a few people bought in at that price, didn't they? I mean it's... obviously there was... a lot changed hands. Some people bought in above a dollar and \$1.50 and so on. I mean the thing is I suppose leaving aside sort of where the starting point is, the performance over... it's been a steady decline over 12 months which is not perhaps what you might have expected.

MB: Well yeah, it wasn't my intention for it to open so high. I mean the business is going fantastically well, revenue's well up, users are well up, projects are well up, the product's doing extremely well. It's just sometimes you have to deal with the irrational exuberance of a mispricing at open.

AK: In light of that I'm just wondering why you did float. I mean it's now what, more than a year since you did, but you only floated 10 per cent. I mean you could have easily raised that sort of money off – I don't know – five investors and you wouldn't have had to do road shows and talked to me and stuff.

MB: Well, I mean the issue was we pretty much bootstrapped the business for five years, so we took a little bit of money at the very beginning to buy our website, but never raised any money to operate the business and, you know, like most Australian companies in technology due to the lack of venture capital, you know, you figure out how to raise money from the best place possible which is by selling something to customers, a product or service. So we've bootstrapping for a long period of time, but the downside of bootstrapping is that it does take a little bit longer and you do get a little bit frustrated when you see a company like Instagram get sold for \$US1 billion after 551 days with 13 people and no revenue. And so you kind of think to yourself, maybe we should take a little bit of money and just to set a valuation stake in the ground and just to kind of, you know, show how big we are. So we'd received term sheets all along the way for five years and at that point we thought maybe we'll take a tiny bit of money from a venture capitalist or a private equity firm to kind of just, you know, put a stake in the ground. And I've written quite extensively of how I thought that the future of financing the technology companies in Australia was through crowdsourcing it through the ASX because we've done such a tremendous job with

resources where you can take an early stage company or a very, very late stage company to the ASX and raise money quite effectively.

AK: That's an interesting analogy actually because the ASX's ability to, as you put it, crowdsource for explorers is well established going back... obviously going back decades.

MB: It's... I mean it's phenomenal, right, and if you can replicate with technology now – an industry for the future which also delivers great productivity and wealth gains – I think it will be great for the country.

AK: So you were trying to be a bit of a pioneer in getting the ASX to do technology?

MB: Well, I'd written a lot about it and then someone said to me, well, have you thought seriously about listing Freelancer? And so, you know, we thought about it. And Xero had earlier trail blazed a path in terms of listing on the ASX and they'd done extremely well and we were growing at a similar sort of revenue growth rate at the time and they were a couple of years ahead of us and I thought well, why don't we give it a go? And, you know, from that point in time from... you know, every step we took, you know, down the path towards going public, a lot of the fantastic things happened. There's obviously a well-publicised takeover offer in the press that came in. We had... Just in terms of the business, we had a lot of recognition both Australian, domestically and internationally, which also boosted revenue on the site, so you know a lot of really good things happened actually going down that path, so I don't regret a thing. The share price has never dropped below the IPO price; in fact, it's well up about 40 per cent now on what the issue price of the IPO and it's only been about 12 months, so I think, you know, things are going well, but you know obviously when you have the... all the excitement and so forth of the opening day going up so much, you have to kind of deal with the, the ramifications of that and you can't really blame anyone for taking profits when they make 500 per cent in an hour, so...

AK: No. And I guess that is what happened, isn't it?

MB: Yeah.

AK: I mean there was a spike, people took profits. I mean as I said people did buy in, but nevertheless that was... let the buyer beware I suppose. The other thing that's occurred over the past 12 months since you listed is a big increase in staff.

MB: That's right.

AK: You've gone to 390 staff now and you've gone... as a result of that gone into losses because you were making a profit in 2013.

MB: Yeah. We were pretty much making a profit every year. I mean we run the business at breakeven because we're reinvesting for growth and the loss we've made this year is pretty marginal in the scheme of things. We had \$103.7 million in gross payment volume through the bank accounts and we made a net revenue of \$26.1 million and we were negative \$1.5 million operating EBITDA, so I think it's pretty marginal in the scheme of things.

AK: Yeah. No, no. I'm not... It's not in a sense a criticism. It's really an observation that I suppose at your stage of life the question of whether you make a profit or a loss is optional; you decide at this point. Do you make a loss because you're investing in the business?

MB: I mean it would be silly to try and maximise earnings at this point in time because we're in a massive market and there's a massive opportunity and we're trying to land grab as fast as we can.

AK: So I think what we need to do is understand the business, exactly how it works because there are a number of... there's net revenue, there's gross revenue, there's a thing called the take rate, so let's... can you just run us through how it actually works and how you make money?

MB: Sure. Well, I mean it's simply we're eBay for jobs, so we're a global marketplace of services where you can... any job you can think of you can get done on our site, so whether it's website design, graphic design, logo design, et cetera. People come along and hire people and deposit funds through us. We hold those funds as control payments and when the person does the work, you can choose to deliver the funds to them. So there's a lot of money that goes through our bank accounts.

AK: Do the funds have to be given to you at the beginning of the job?

MB: You can negotiate with the freelancer, but more often than not, it does and so that way the freelancer knows there are funds there, so they can actually start work and actually know reliably they're going to get paid at the end of the day. So the gross payment volume is the total sum of funds that get paid to us and the net revenue is basically the fees that we charge, so our commissions and other... you know, memberships and other things like that, so...

AK: And so what are the commissions?

MB: So if I do a job for you, I get charged between three per cent and 10 per cent and you get charged between zero per cent and three per cent of the money of the job. So if it's a \$200 job, it's between three per cent and 10 per cent and zero per cent and three per cent of \$200.

AK: So the doer of the... So the person who has posted the job who wants something done, they pay between zero per cent and three per cent?

MB: Correct.

AK: And the person who is doing the job, three per cent to 10 per cent?

MB: That's right. Yes.

AK: So you're getting it from both sides.

MB: That's right. Yes.

AK: And do you make any money on the float?

MB: Well, most of the revenue comes in in US dollars, so unfortunately the interest rate is close to zero, but if US interest rates go up, we'll be making good money on the interest of the float.

AK: Yeah well, so how big is the float?

MB: It's about \$20 million.

AK: Right. So what are the various... There's net revenue and then there's gross revenue. What exactly are they?

MB: We record net revenue and then gross payment volume. So gross payment volume is the total number through the bank account and...

AK: Total number of jobs and net revenue is your commissions.

MB: Is our actual fees. Yes.

AK: Yeah, righto. I see.

MB: And that's what we focus on is the net revenue.

AK: And your margin on the revenue is 87 point something per cent.

MB: Yeah. So yeah we're a very high margin business. So, you know, it's a software business and so it's... you know, the operating costs are very, very low and effectively the main... There's very little capex in the business and all the opex is basically just head count, so engineers that kind of work on the product.

AK: So why do you need... Speaking of head count, why do you need 390 people?

MB: We have...

AK: You could make this thing operate virtually on its own.

MB: We could, but we have 14.4 million customers that we've got to provide customer service to and so we do that in about almost I think 15 languages right now. So right around the clock, any time of the day no matter where you are in the world, we have about 300 people in our customer service office and we have a bit over a hundred engineers working on making the product better day by day.

AK: So your margin has been pretty steady over the past few years at about 87... between 85 per cent and 90 per cent.

MB: That's right.

AK: Is that something you can hold? Do you intend to hold your margin at that level?

MB: We've been pretty consistent holding those margins at that level and we will into the future. In fact, I think it will firm up slightly and actually be slightly higher than where it is now.

AK: Well, because that's in your control, isn't it? That's not... That isn't something that is delivered to you; you can actually control your margin.

MB: Yeah. It's a function of just the economies of scale. So what gets netted out of that are things like prices and fees for credit card gateways, so as we get more and more volume through the business, we get...

AK: Oh so there are some variable costs?

MB: We'll get more and more efficient, yeah.

AK: But the take rate has been going up. So what is the take rate?

MB: So the take rate is the percentage of revenue we generate from the gross payment volume, so this is really a measure of just how many... what sort of services we're offering to our users and how well we're monetising those users, so things like membership fees, commissions, project upgrades, certification fees, so you can do a \$5 exam and certify that you know iOS development or Android development, for example, and so every year we've been managing to inch those fees up slightly in terms of the take rate because we deliver more value to our users and therefore there are more services they subscribe to.

AK: So to just get this straight, the take rate is... what you call the take rate is your percentage revenue you get from the gross payment volume.

MB: Correct. That's right.

AK: Right. So... And what you're saying is that it's not just the commissions you get from the people who are dealing with each other, there are a whole lot of other fees. Or revenues.

MB: Correct. Correct. That's right. That's right. So there are a whole lot of different ways in which you can build your profile at the site. So you can certify your skills to prove that you're certified in certain areas, which gives you an increased chance of actually winning a job. You can subscribe to one of our various membership packages. When you post your project, you can make it featured. You can elect to have... You can get a nondisclosure agreement signed if it's a confidential project. There's a range of services that... and we continue to add more and more services year by year.

AK: You've reported that your registered user number is 14.3 million.

MB: That's right. Yes.

AK: So what is a registered user?

MB: That's someone who signed up on the account... signed up an account on the site.

AK: So to do jobs or to get someone to do jobs? Either way?

MB: You can either bid on a job or post a job; it doesn't matter for any accounts.

AK: Right.

MB: So most of the users are freelancers, so about 75 per cent of them are freelancers and they primarily do work and about 25 per cent are employers and then there are some over in the middle where people with both post jobs and actually do jobs.

AK: So is your number of registered users your most important number, do you think?

MB: The most important number is revenue.

AK: Right.

MB: I focus on revenue. I focus on number of projects posted. I focus on number of bids on projects which is up to about two million bids per month and the number of entries in to crowdsourcing contests which has almost doubled in a year to a quarter of a million entries per

month. So crowdsourcing is where you put up a prize, say a hundred dollars, you say design me a logo and then people from all around the world submit entries, and you say I like this, I don't like this, change the colours – it's very interactive – and then you award a prize to the person that you like the most, as opposed to the traditional model of more outsourcing where you post a project, people bid on it and you pick one person. And so contest...

AK: Right. And you can do both of those things, can you?

MB: We do both those things, yeah.

AK: Right. So you actually... with the crowdsourcing one you wait to see what's actually submitted and you choose one rather than choosing between a range of people and then you're stuck with whatever they come up with.

MB: That's right. So it's very visual, so you can see a bunch of designs and you can actually iterate on the design of those interactively with the people who enter the contest.

AK: So the number of projects was I think 6.9 million in the whole 12 months, right?

MB: That's right.

AK: So how many projects per day are being posted?

MB: About 5,000. So we had 1.6 million projects in 2014 that were new, so that was up 32 per cent on the previous year which is actually an acceleration from the year before which was up 20 per cent.

AK: Right. And so now we're towards the end of February. What's it been going like in the first two months of this year?

MB: Fantastic. 2015 is going to be a great year for us.

AK: Right. But what sort of growth rate in either project numbers or registered users are you expecting to see, are you seeing now?

MB: Well, I mean we're not forecasting for 2015. It's only been a month.

AK: Come on, you can just forecast with me. It's okay.

MB: No. I mean the business is going fantastic. We've just rolled out a whole mobile suite of products which allows people to now post projects from mobile which we didn't have before, so 2015 is going to be a fantastic year for us.

AK: Right. Yeah, but everything's upbeat with you. Everything's fantastic. It's great.

MB: When you have a growth business, every day is a new high, so that's why it's exciting to run the business.

AK: Well, that is... I suppose that's right. Every day is a new high, as you put it. But so I suppose the investors want to know what's the... I mean without coming up with forecasts... I mean 14.3 million registered users... I mean where... In your literature you talk about the whole world, you know, and the number of people who are connected to the internet and so on, of course, we're talking billions. So in that context 14.3 million is not much at all.

MB: We are in very, very early days. I mean there are three billion people on the internet. There are four billion people yet to come. The other four billion people will be our customers because they live on an average wage of \$10 a day or less and we help them go from \$10 a day to \$10 an hour or more. So the nexus is the rest of the world is going online and needs a better job. And so it is. It's a massive market. It's very early days. I like to think of it it's like eBay in 1997, right. I mean it's very, very, very early days in a very, very big market.

AK: And are you the only one doing this?

MB: Oh, there are others all round the world. We consolidated about 13 competitors, so we were lucky in terms of timing. We went in there and we consolidated a number of other players early on. But everyday there's a little site popping up doing, you know, crowdsourcing for graphic design or crowdsourcing for legal services or crowdsourcing for what have you or, you know, collecting your laundry or walking your dog, so you know it's a competitive market, but we're the leader. We have more users than anyone else in the space. We have more projects than anyone else in the space posted.

AK: But do you think that... Because what we found obviously with eBay and with Google and with Twitter and so on is that there's always usually one winner. In whatever field you pick, there's one winner, right, so what are you doing to ensure that that one winner in your business is Freelancer?

MB: I mean you're absolutely right. In online market places they tend towards winner takes all because the buyers want to go where the sellers are and the sellers want to go where the buyers are. So we're doing everything we can to ensure we have the most users and right now we're the world leader in terms of number of users, so we just have to keep iterating on the product, make it better and better and better and keep, you know, consolidating the industry and just growing revenue and growing users and growing projects.

AK: And do you think that's going to involve continued acquisitions? Are you going to have to mop a lot of these niche competitors?

MB: It's worked very well for us in the past and I would think in the future that we'll continue to consolidate the industry.

AK: And are you a competitor to Seek or an alternative to them?

MB: Not really. They're a bit of the old world model. So the old world model was...

AK: Seek's the old world?

MB: It is. It is to an extent.

AK: I love that.

MB: I mean they post jobs for full time employment over periods of years. And if you think about... think back, maybe in the 1920s when people went out in to the workforce, they would think about a career being for life; maybe the 1940s, 1950s you would think of a career being 20 years. I'm Gen X, so I think it's acceptable to be in a career maybe five or 10 years; anything less than that you think maybe you jump around too much. Gen Y, maybe one to two years. Millennials, maybe six months, right, so... And our freelancers, the average job lasts about two weeks, right. So what they're doing is they're going from employer to employer, you know, for two weeks. They're defining their own career. They're creating their own career. So, you know,

for two weeks maybe they'll do some web design, then I maybe want to learn something about music, so I'll do some work... a bit of freelance, you know, doing something to do with music, and then Apple might release a new version of the operating system, so let's work on some mobile phone apps for a few more weeks, etcetera, and so really the careers are very short in time – they jump between different things – and you're really your own architect in sort of defining how you want to shape your future and shape your skillset. So it's a pretty interesting and very, very liquid sort of environment. But no, we don't play in full time employment.

AK: Oh no, no, I'm not suggesting you do, but I mean I suppose the question is Seek came and disrupted the newspapers very successfully and made a lot of money from disrupting newspapers. Do you think that you are disrupting Seek?

MB: No. Not yet, no.

AK: No, but is that intention? Do you think over time your sort of business will disrupt the jobs boards, such as Seek, that more and more people will kind of go into your kind of thing?

MB: Well, maybe. If you extrapolate the trends in terms of how long people consider traditional careers last, I think maybe in the future you might see some change in the way that people think about going in to a career and how long they stay in a career. I mean Andrew Bassat is a shareholder in Freelancer, so you know...

AK: He's hedging his bets.

MB: He probably is. I'm a big fan of his business, so you know... He's done extremely well. They're number one in the world. It's pretty amazing to have an Australian business number one in the world in a space and he's number one in the world for jobs, traditional jobs.

AK: Well, I'm interviewing Andrew this week for *Eureka Report*.

MB: Oh, fantastic.

AK: Yeah. So, but can people using Freelancer actually make a career, raise a family, earn the sort of money that they need to?

MB: This is what I think is really special about Freelancer is that we actually really are changing lives. There are plenty of people on the site that have literally over the years built up a career. They feed their families. I mean we provide jobs in areas... I mean most of our freelancers are in the developing world, so we provide jobs in areas, technical jobs that are desperately needed at orders of magnitude of what people are paid locally. I mean I don't know if you're aware of this, but five billion people on the planet make \$10 a day or less. Our minimum job is...

AK: Well, it doesn't surprise me. Of course, that's right.

MB: Our minimum job is \$200 and there are jobs in technical areas, so you can be somewhere in Bangladesh, for example, and you can make thousands of dollars or maybe a hundred thousand dollars.

AK: But are you only changing lives... are you only doing that for the people in the developing world who do... who are on... who are among that five billion and make \$10 a day or whatever? I mean is somebody in... Can somebody in Melbourne or Sydney use Freelancer to make a life for themselves?



MB: They do, but they usually turn it the other way around and what they do is they hire a workforce that's very low cost to help them, you know, basically grow their business, right. So you may be a café owner and you need to get a website built or your mobile phone app or your menu redesigned or your interior redone of your café and you don't have time, you don't have a lot of money and you're constantly busy with your business. Now you can just log in and just with a few clicks hire an online workforce to help you basically turn that spark of an idea you have in to reality, right. And so we're a massive productivity tool for small business. Anything that can be done with a computer can be done on our website. So, you know, if you're a small business owner or an entrepreneur or a startup and you've got some sort of an idea, we can help you take that idea and turn it in to reality.

AK: We'll have to leave it there, but thanks for coming in and talking to us, Matt.

MB: Thank you very much.

*Matt is speaking at a conference in March called "Creative Innovation 2015: From Disruption to Sustainable Growth":[www.ci2015.com.au](http://www.ci2015.com.au).*